

Message Text

CONFIDENTIAL POSS DUPE

PAGE 01 BUDAPE 02251 01 OF 02 171223Z

44

ACTION EUR-12

INFO OCT-01 ISO-00 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00

EB-07 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00

NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04 TAR-01

TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01 SAJ-01

/094 W

----- 092148

R 171049Z JUL 75

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 3715

INFO AMEMBASSY BELGRADE

AMEMBASSY BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY PRAGUE

AMEMBASSY MOSCOW

AMEMBASSY SOFIA

AMEMBASSY WARSAW

US MISSION USEC BRUSSELS 234

US MISSION NATO 646

C O N F I D E N T I A L SECTION 1 OF 2 BUDAPEST 2251

E.O. 11652: GDS

TAGS: ECIN, COMECON, EGEN, HU

SUBJECT: HUNGARY AND CEMA PRIME MINISTERS' CONFERENCE

REFS: MOSCOW 9316, BUCHAREST 3106 AND BUCHAREST 3202

1. SUMMARY: CEMA PRIME MINISTERS' CONFERENCE ON
JUNE 24-26 PROVIDED HUNGARY WITH OPPORTUNITY TO SECURE
PUBLIC COMMITMENT FROM SOVIETS ASSURING CONTINUED SUPPLIES
OF ENERGY RESOURCES AND OTHER RAW MATERIAL. IN RETURN
HUNGARIANS PROMISED TO STEP UP PARTICIPATION IN CEMA
INTEGRATION PROJECTS AND TO INCREASE THEIR INVESTMENT IN RAW
MATERIALS EXTRACTION PROJECTS IN USSR. BUDAPEST'S SEVERE
CONFIDENTIAL
CONFIDENTIAL

PAGE 02 BUDAPE 02251 01 OF 02 171223Z

AND DEEPENING BALANCE OF PAYMENTS DEFICIT WITH WEST, COUPLED
WITH "IMPORTED" PRICE INCREASES, PARTICULARLY IN OIL

COSTS, CLOUDS AND COUNTRY'S ECONOMIC FUTURE; AND THE LEADERSHIP STARING AT THOSE THUNDERHEADS HAS EVIDENTLY DECIDED THAT IT HAS NO CHOICE: IT MUST RELY EVEN MORE HEAVILY ON THE SOVIET UNION AND OTHER EAST EUROPEAN TRADE PARTNERS.

GROWTH OF TRADE WITH WEST WILL PROBABLY MODERATE OVER NEXT FEW YEARS. TOP PARTY AND SENIOR GOVERNMENT OFFICIALS ARE MAKING MAJOR EFFORT TO EDUCATE HUNGARIAN PEOPLE-- WITHOUT FRIGHTENING THEM--TO DIMENSIONS OF ECONOMIC DIFFICULTIES NOW BESETTING THE COUNTRY; THUS FAR, HOWEVER, THEY HAVE REFUSED IN THEIR PUBLIC STATEMENTS TO ABANDON AMBITIOUS ECONOMIC GOALS OR EVEN TO ADMIT EXTENT OF CONSUMER PRICE INCREASES UNDER CONSIDERATION. CEMA CONFERENCE CAME AT MOST OPPORTUNE TIME FOR SOVIETS SINCE PRESENT ECONOMIC REALITIES AND FORBODING FUTURE ARE COMPELLING HUNGARY TO SUPPORT MORE INTEGRATION, MORE SPECIALIZATION AND CLOSER ECONOMIC COLLABORATION WITH MOSCOW. END SUMMARY.

2. BUDAPEST CONFERENCE OF CEMA PRIME MINISTERS CAME AT AWKWARD TIME FOR HUNGARIANS. UNPLANNED AND UNMANAGEABLE OUTSIDE FORCES THREATEN TO ARREST HIGH GROWTH RATES IN INDUSTRIAL AND AGRICULTURAL PRODUCTION, AND EVEN MORE IMPORTANT, TO FREEZE OR EVEN CONCEIVABLY ERODE LIVING STANDARDS. "IMPORTED" INFLATION FROM WEST NOW FINDS IT REINFORCING COUNTERPART IN HIGHER PRICES WHICH SOVIETS CHARGING FOR THEIR GOODS, PARTICULARLY OIL. WITH 40 PERCENT OF NATIONAL GNP DERIVED FROM FOREIGN TRADE, AND WITH NO RAW MATERIAL BASE OF THEIR OWN, HUNGARIAN PARTY AND GOVERNMENT LEADERS FIND THEMSELVES IN AN EAST/WEST EMBRACE THAT REALLY HURTS. HUNGARY MUST NOW EXPORT AN EVEN GREATER VOLUME OF GOODS TO PAY FOR ITS IMPORTS, A DIFFICULT PROPOSITION FOR A COUNTRY WHICH HAS TO BRING IN THE RAW MATERIAL IN ORDER TO INCREASE ITS DELIVERIES OF DOMESTIC PRODUCTS. CURRENT TRADE DEFICIT WITH WEST IS FUNNING AT MORE THAN DOUBLE 1974 RATE OF \$600 MILLION. SINCE PRICES OF HUNGARIAN PRODUCTS HAVE NOT RISEN IN PROPORTION TO SOVIET OIL PRICE BOOSTS, IT IS NOW CLEAR THAT HUNGARY IN THE NEAR FUTURE WILL FIND ITSELF OBLIGED TO DIVERT EASTWARD GOODS WHICH IN NORMAL TIMES WOULD HAVE GONE WEST TO EARN HARD CURRENCY.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BUDAPE 02251 01 OF 02 171223Z

3. PRESSURE ON DOMESTIC PRICES CONTINUES TO BUILD. OVER ONE-THIRD OF PRESENT NATIONAL BUDGET GOES TO PRICE SUPPORTS-- CIRCUMSTANCE INCREASINGLY CRITICIZED BY GOVERNMENT ECONOMISTS AS DETRIMENTAL TO LONG-TERM PLANNING ON INVESTMENTS. WHILE GOH HAS ALREADY ANNOUNCED SOME PRICE INCREASES IN PRODUCER AND CONSUMER GOODS, IT IS NOW CLEAR THAT TOP LEADERSHIP IS WEIGHING POLITICAL CONSEQUENCES OF BOOSTING PRICES ON SOME PRODUCTS AGAIN PERHAPS BY A 10 TO 15 PERCENT MARGIN.

WHEN THE USSR BOOSTED 1975 OIL PRICES, HUNGARY SUFFERED

SOME ECONOMIC PANGS; BUT THE LACK OF AN ASSURED SUPPLY

CONFIDENTIAL

NNN

CONFIDENTIAL POSS DUPE

PAGE 01 BUDAPE 02251 02 OF 02 171256Z

44

ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00 COME-00

DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 SAJ-01

/094 W

----- 092541

R 171049Z JUL 75

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 3716

INFO AMEMBASSY BELGRADE

AMEMBASSY BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY WARSAW

US MISSION USEC BRUSSELS 235

US MISSION NATO 647

C O N F I D E N T I A L SECTION 2 OF 2 BUDAPEST 2251

OF PETROLEUM AND OTHER RAW MATERIALS NEEDED BY BOTH

INDUSTRY AND AGRICULTURE CAUFF

SBUDAPEST'S ECONOMIC

PLANNERS ACUTE ANXIETY. JENO FOCK, ACCORDING TO WELL-INFORMED

OBSERVERS HERE, LEFT THE PREMIER'S OFFICE SOONER THAN EXPECTED

BECAUSE HE VOICED STRONG CRITICISM OF SOVIETS OVER PRICE AND

SUPPLY UNCERTAINTIES. FIRST SECRETARY KADAR AND

PREMIER LAZAR HAVE NOW EMBARKED ON PROGRAM TO CONVINCE

THEIR COUNTRYMEN THAT HUNGARIANS MUST MAKE GREATER

SACRIFICES IF NATION IS TO ATTAIN ITS AMBITIOUS AND

WIDELY-HERALDED ECONOMIC GOALS.

5. BY LATE JUNE WHEN CEMA CONFERENCE GOT UNDER WAY,
CONFIDENTIAL
CONFIDENTIAL

PAGE 02 BUDAPE 02251 02 OF 02 171256Z

LEADERSHIP WAS WELL AWARE OF HUNGARY'S ECONOMIC PLIGHT. FIRST TASK WAS TO SECURE LONG-TERM COMMITMENT FROM SOVIETS ON ASSURED DELIVERIES OF RAW MATERIALS; AND SECONDLY CORRESPONDING LONG-TERM CREDITS TO COMPENSATE FOR BALANCE OF PAYMENTS DIFFICULTIES. PRESENCE OF KOSYGIN AND FADEYEV AT CONFERENCE PROVIDED HUNGARIANS WITH OPPORTUNITY TO PRESENT THEIR CASE IN HIGH-LEVEL, MULTILATERAL FORUM BEFORE ANY OTHER CEMA LEADER COULD VOICE HIS PETITIONS, PROPOSALS, OR PLANS. AND PRIME MINISTER LAZAR AS KEYNOTER SAID IT ALL IN HIS OPENING ADDRESS.

6. IN PUBLIC STATEMENTS AND IN PRIVATE CONVERSATIONS (AS EMBASSY HAS SINCE LEARNED) SOVIETS GAVE HUNGARIANS WHAT THEY SOUGHT. KOSYGIN TOLD CONFERENCE DELEGATES THAT "SOVIET UNION NOT ONLY ENSURES AN EXTRA SUPPLY OF MAJOR RAW MATERIALS ON A LONG-TERM BASIS, BUT ALSO IS PREPARED TO MAKE CERTAIN CHANGES IN THE STRUCTURE OF ITS NATIONAL ECONOMY IN ORDER TO INCREASE THE SHARE OF RAW MATERIALS INDUSTRIES WITH AN EYE TO THE REQUIREMENTS OF THE OTHER SOCIALIST COUNTRIES." IN PRIVATE CONVERSATION, FADEYEV REPEATED ABOVE STATEMENT TO AUSTRIAN AMBASSADOR HERE AND ADDED THAT "HUNGARY WOULD GET WHATEVER FINANCIAL ASSISTANCE IT REQUIRED."

7. GOHNGPPEARS WELL SATISFIED WITH SOVIET ASSURANCES ON RAW MATERIALS DELIVERIES; BUT THE NEW OBLIGATION TO INVEST MORE HEAVILY IN JOINT CEMA PROJECTS CONSTITUTES A SIZEABLE LIEN ON A SMALL NATION WHICH FINDS IT INCREASINGLY DIFFICULT TO GENERATE SUFFICIENT CAPITAL TO MODERNIZE AND EXPAND DOMESTIC PLANTS. PRECISELY HOW MUCH OF THE 9 MILLION ROUBLE JOINT CEMA INVESTMENT COMES FROM HUNGARY, ONE CANNOT YET ESTABLISH.

8. CONFERENCE COMMUNIQUE AND PUBLISHED REPORTS HAVE YIELDED FEW SPECIFICS ABOUT CEMA INTEGRATION AND SPECIALIZATION. TRADITIONALLY HUNGARIANS WERE WARY OF SUCH PROPOSALS LEST THEY SPECIALIZE THEMSELVES OUT OF PROFITABLE WESTERN MARKETS WHICH ALSO YIELDED HARD FOREIGN EXCHANGE. ALSO THEY SAW NO NATIONAL BENEFIT WHATEVER IN ALLOWING CEMA-EEC LINKS TO REPLACE THEIR OWN
CONFIDENTIAL
CONFIDENTIAL

PAGE 03 BUDAPE 02251 02 OF 02 171256Z

BILATERAL TRADING WITH INDIVIDUAL CAPITALISTIC COUNTRIES.
BUT RICKETING INFLATION IN THE WEST AND IMPOSITION OF

HURTFUL TRADE BARRIERS, SUCH AS EEC'S BEEF IMPORT BAN, HAVE CAUSED SOME OF MORE LIBERAL HUNGARIAN ECONOMISTS AND INNOVATIVE MAGYAR TRADERS WHO ESPOUSED CLOSER AND EXPANDED ECONOMIC TIES WITH WEST TO ENGAGE IN SOME SERIOUS RE-THINKING; AND HAVE SILENCED THE REST. MOSCOW'S REFUSAL TO ACCEPT EMIGRATION RESTRICTIONS IN 1974 TRADE BILL COVERING MFN WHICH BUDAPEST'S POLITICAL LEADERSHIP PROMPTLY CARGON-COPIED, DISHEARTENED SCORES OF INFLUENTIAL HUNGARIANS AO COVET THE AMERICAN MARKET AND HAD ACALLY COU,SED ON GREATLY EXPANDED TWO-WAY TRADE WITH THE TECHNOLOGICALLY ADVANCED U.S.

9. HUNGARY IS IN A CATCH-22 SITUATION. IT MUST EXPORT MORE EASTWARD TO COVER HIGHER RAW MATERIALS PRICES. AS IT DOES SO, IT RISKS AN EVEN MORE SEVERE DETERIORATION IN ITS TERMS OF TRADE WITH WESTERN EUROPE, NORTH AMERICA AND REST OF CAPITALIST WORLD. OVER LONG RUN, HOWEVER, HUNGARY MUST INCREASE ITS EXPORTS TO THE NONGCEMA WORLD IN ORDER TO EARN THE FOREIGN EXCHANGE TO MODERNIZE PLANT AND EQUIPMENT AND THEREBY REMAIN COMPETITIVE IN BOTH MARKETS.
MCAULIFFE

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: RAW MATERIALS, ENERGY, MINISTERIAL MEETINGS, ECONOMIC INTEGRATION
Control Number: n/a
Copy: SINGLE
Draft Date: 17 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BUDAPE02251
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750247-0433
From: BUDAPEST
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750744/aaaabmyl.tel
Line Count: 244
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 MOSCOW 9316, 75 BUCHAREST 3106, 75 BUCHAREST 3202
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 22 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 APR 2003 by ShawDG>; APPROVED <23 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: HUNGARY AND CEMA PRIME MINISTERS' CONFERENCE
TAGS: ECIN, EGEN, HU, COMECON, CEMA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006